LEGISLATIVE SERVICES AGENCY

OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7811 **DATE PREPARED:** Jan 10, 2001
BILL NUMBER: HB 1836 **BILL AMENDED:**

SUBJECT: Internship program and tax credit.

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FUNDS AFFECTED: X GENERAL **IMPACT:** State
X DEDICATED
FEDERAL

Summary of Legislation: *Certified internship programs and tax credit:* This bill allows an institution of higher learning to apply to the Department of Workforce Development for certification for an internship program operated or administered by the institution. It requires the Department, in conjunction with the Department of Education, to certify an internship program if the program meets certain requirements.

The bill also provides a refundable credit against the state tax liability of an employer of 100 or fewer employees for 25% of the payroll expenditures made by the employer during a taxable year to a student participating in a certified internship program. It further provides that the total amount of all tax credits approved for such payroll expenditures may not exceed $300,000 in a state fiscal year.

Enterprise Zone Employment Expense Tax Credit: This bill also repeals a provision giving a state tax liability credit to employers for increased employment expenditures or the employment of qualified employees in Enterprise Zones.

Effective Date: Upon passage; January 1, 2001 (retroactive); July 1, 2001.

Explanation of State Expenditures: *Certified internship programs:* This bill creates a tax credit for certified internship programs that would place college students in career internships which are integrated with a course of study. The programs must be operated or administered by public and private institutions of higher learning in Indiana. With the consultation of the Department of Education, the Department of Workforce Development would have to approve certified internship programs and adopt rules to implement them. The costs associated with this requirement would depend on the number of programs that must be certified.

The Department of State Revenue (DOR) would also incur some additional costs as a result of this program. The DOR would have to develop forms for the reporting of this credit, but would be able to absorb the related expenses of processing, printing, and computer programming within its current budget. A taxpayer seeking credits for payroll expenditures would have to submit payroll and other information to the Department. The costs to the DOR of approving expenditures would depend on the number of taxpayers that apply for credits.

Explanation of State Revenues: *The Certified Internship Program Payroll Credit would reduce revenue by up to $300,000 annually beginning in FY 2002. However, eliminating the Enterprise Zone Employment Expense Tax Credit would offset this loss by $350,000 in FY 2002 and by $700,000 in subsequent fiscal years. The combined effect would be a positive fiscal impact of $50,000 in FY 2002 and $400,000 in FY 2003 and beyond.*

Certified Internship Program Payroll Credit: The credit granted under this bill to an eligible taxpayer would equal 25% of payroll expenditures for each certified program intern. If an intern was paid $10,000 for a summer internship, the firm would be eligible for a $2,500 credit. The total fiscal impact would depend on the number of participants and their wages, however, a maximum of $300,000 in total credits may be granted each year. The pool of employers eligible for this credit is restricted to any entity employing between one and one hundred workers.

The credit may be taken against a taxpayer's Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Financial Institutions Tax, and Insurance Premium Tax liability. If the credit exceeds the taxpayer's total state liability in one year, the excess may be carried forward and would also be refundable. Carrybacks would not be permitted. If a pass-through entity without state tax liability is entitled to a credit, a shareholder, partner, or a member of the entity is entitled to a credit equal to the credit determined for the entity multiplied by that person's share of distributive income.

This credit would be effective beginning in the 2001 tax year, although the fiscal impact would fall in FY 2002. Revenue from the various taxes listed above is deposited in the General Fund and the Property Tax Replacement Fund (PTRF).

Additional information: The Department of Workforce Development estimates that nearly 35,000 individuals in Indiana between the ages of sixteen and twenty-four participated in some kind of school-to-work program in CY 2000, although it is not known how many would qualify as certified programs under the provisions of this bill.

Enterprise Zone (EZ) Employment Expense Tax Credit: This bill repeals the EZ Employment Expense Tax Credit which provides employers with a credit against the Gross Income Tax, Adjusted Gross Income Tax, Insurance Premium Tax, or Financial Institutions Tax. The credit is based on the increase in employment expenditures within an EZ after the designation of the Zone and is equal to: (1) the lesser of 10% multiplied by the qualified wages; or (2) $1,500 for each qualified employee.

Based on registration forms filed with the Indiana Department of Commerce by current EZ businesses, the average amount of credits claimed annually from 1997 through 1999 was approximately $700,000. The bill also provides that although the Employment Expense Tax Credit is repealed effective July 1, 2001, an employer could receive pro-rated tax credits for qualified expenses made in the 2001 tax year. Not including the impact of employee turnover throughout 2001, most eligible companies would likely receive a credit equal to about 50% of what could have been claimed absent this proposal. Based on this assumption, the impact would be a $350,000 increase in state revenue in FY 2002 and a $700,000 increase in FY 2003 and subsequent years.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development, Department of Education, Department of State Revenue, institutions of higher learning.

Local Agencies Affected:

Information Sources: Leslie Richardson, Director, Division of Research, Indiana Department of Commerce (317) 232-8962; Pat Murphy, Deputy Commissioner, Department of Workforce Development, (317) 233-1463.